STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	)	
	)	
Tariff Filing to Present the Illinois Commerce Commission	)	
With an Opportunity to Consider Revenue Neutral	)	Docket No. 13-0387
Tariff Changes Related to Rate Design Authorized by	)	
Subsection 16-108.5(e) of the Public Utilities Act	)	
	)	

POSITION STATEMENT OF THE COMMERCIAL GROUP

The Commercial Group hereby respectfully submits its position statement, following the Common Brief Outline as closely as possible without duplicating arguments in closely related sections.

I. INTRODUCTION/STATEMENT OF THE CASE

II. COST OF SERVICE AND INTERCLASS ALLOCATION ISSUES

C. Potentially Contested Issues

1. Cost Allocation of Primary/Secondary Distribution System

a. Studies and Analysis Performed Regarding Changes to Cost Allocations to Primary Service

(i) Extra Large Load and High Voltage Over 10 MW

CG Position - Regardless of the embedded cost of service study ("ECOSS") adopted by the Commission in this proceeding, the Commission should incorporate the methodology employed in IIEC Ex. 2.1 for assignment of 10 percent of Shared Distribution Lines cost to the Secondary Distribution Lines function.

Witness Terhune testified that over one-third of the costs allocated under the "Shared Distribution Lines" function represent costs of single-phase and two-phase facilities that have little usefulness in providing service to large load ratepayers. REACT Ex. 2.0:771-776. He recommended reducing by one-third this allocation to the Extra Large Load and High Voltage Over 10 MW classes. *Id.* at 777-781. Mr. Stevens for IIEC likewise estimated that approximately 25 percent of ComEd's overhead primary costs and 33 percent of ComEd's underground primary costs are related to single-phase facilities and should be re-allocated. IIEC Ex. 1.0:206-210.

The difficulty came in determining what to do about the over-allocation of Shared Distribution Lines cost to the larger load customers. Because of REACT's narrow focus on rate classes with 10MW and higher demand, Mr. Terhune suggested that one-third of the allocation of Shared Distribution Lines cost presently allocated to the Extra Large Load and HV Over 10

MW classes be "spread over all classes." REACT Ex. 5.0: 255-258. However, this would cause customers in the Large and Very Large Load classes to receive an increased allocation of Shared Distribution Lines cost even though under Mr. Terhune's own analysis these classes should receive a lower allocation of Shared Distribution Lines cost. (Mr. Terhune testified that single-phase or two-phase lines are not capable of serving the standard service requirements of Large or Very Large load customers. Tr. at 373:21–374:3, 374:24–375:7.) Plainly, this result would be both unfair and unreasonable. Further, these classes already are paying more than ComEd's ECOSS indicates they should and would continue to do so under rate designs that are not 100 percent ECOSS.

The IIEC provided a workable solution that avoided this unfairness. Although Mr. Stevens later testified that assigning 20 percent of primary voltage costs to secondary customers would still be a conservative approach toward resolving the over-allocation of Shared Distribution Lines cost to higher load classes, IIEC witness Alderson performed an even more conservation adjustment of only 10 percent of Shared Distribution Lines functional costs to the Secondary Distribution Lines function. IIEC Ex. 2.0: 21-25. This conservative approach would result in a fairer allocation of costs to all larger load classes, from Medium through High Voltage, than simply addressing over-allocations to two classes. Further, ComEd examined the methodology of IIEC 2.1, found no errors, and replicated the study as ComEd Ex. 7.02. ComEd Ex. 7.0, 15:241-243. Unless and until a more complete study can be performed, the Commercial Group recommends the incorporation of the IIEC Ex. 2.1 methodology into the final ECOSS adopted in this proceeding.

(ii) Single-Phase/Three Phase (Shared) Primary Separation

See discussion in Section II.C.1.a.(i) *supra*.

b. Studies and Analysis Proposed Regarding Future Changes to Cost Allocations to Primary Service

(i) Shared Distribution Line Proportional Cost Assignment Study

The Commercial Group takes no position on the feasibility of the additional study recommended by REACT and IIEC to determine a more accurate allocation of Shared Distribution Lines cost. Certainly however, there is merit to exploring the feasibility of such a study and options for more closely analyzing how Shared Distribution Lines cost can be more closely approximated and allocated to the various classes. In the meantime, the conservative approach in IIEC Ex. 2.1 should be adopted as a conservative estimate and allocation of shared line cost.

(ii) Single-Phase/Three Phase (Shared) Primary Separation Investigation/Workshop

See discussion immediately above in Section II.C.1.b.(i).

(iii) OTHERS – Geographical cost study proposed by CTA/Metra

CG Position - the Commission should not require ComEd to perform a geographic cost study for the two Railroad customers because all ComEd customers could request similar studies.

CTA/Metra witness Bachman testified that because these two ComEd customers are located only in Cook and Will counties, ComEd should perform a cost study with the goal of potentially eliminating the allocation of any costs to these two customers of distribution facilities located in other counties. CTA/Metra Ex. 1.0:332-366. But any individual (or group) of ComEd customers could argue that it should not be allocated any costs for facilities that are located in geographic areas other than where that customer(s) is located. Tr. 270:22 – 271:1 (Bjerning). As Mr. Bjerning succinctly put it, performing such geographic studies for all of the ComEd customers that potentially could make such requests "would be quite complex, considering there's 3.8 million customers out there." *Id.* at 271:2-4. The Commission should not adopt the CTA/Metra proposal for a geographic cost study.

D. Overall ECOSS Recommendation

The Commercial Group does not recommend any particular ECOSS but does recommend that the ECOSS ultimately adopted should include the allocation methodology of IIEC Ex. 2.1. In addition, as discussed in Section IV *infra*, whatever ECOSS is adopted, the Commission should set rates based on the costs established in such ECOSS.

IV. RATE DESIGN

A. Overview

CG Position - Regardless of the ECOSS adopted by the Commission in this proceeding, the costs shown by such ECOSS should be reflected fully in class rates.

In the alternative if the Commission decides to continue its "next step" approach, the Commission should move the non-residential classes halfway to cost, with the exception of the Railroad class, which would be moved one-third of the way to cost

The Commission commenced its stepped process of eliminating on-going rate subsidies in its 2007 Rate Case final order of Sept. 10, 2008 in Docket No. 07-0566 ("2007 Rate Order"), p.213:

> Above, we determined that the proper assignment of primary and secondary distribution costs would likely reduce the total cost allocation to customers in the Extra Large Load, High Voltage, and Railroad delivery classes. It would be inconsistent with that finding to accept ComEd's two-step rate increase. Instead, an allocation that more closely reflects a proper cost of service would be reflected in a four-step, gradual movement toward rates based on the ECOSS for Extra Large Load, High Voltage, and Railroad Delivery Classes. ComEd Ex 30.0 at 43-45. Thus, the Commission authorizes a 25% movement toward ECOSS based rates for these customers, instead of a 50% movement.

Thus, a slower four-step process was implemented because of flaws that the Commission found in ComEd's ECOSS, namely the need to assign primary and secondary distribution costs. The

Commission later slowed this process for the Railroad class to a ten-step process in large part out of a concern that a sharp increase to Railroad class rates in any individual case might harm transit customers:

> At this time, the Commission declines to raise the rate that the CTA and Metra will incur beyond 10%. The Commission notes that any increase in the rate supplied to these two customers could be passed on to consumers. Also, an increase in the costs incurred by the CTA and Metra, beyond the modest one proposed by ComEd, could limit these providers' ability to provide public transportation to millions of people.

May 24, 2011 Final Order in Docket No. 10-0467 (pp.260-261). However, as ComEd witness Bjerning points out in his rebuttal testimony (ComEd Ex. 7.0:375-406), the primary/secondary allocation was implemented and the Commission has determined in more recent cases that ComEd's class cost of service study has been "greatly improved" through the input of the various parties. Presumably, that study will be improved even further through this current rate design investigation. Therefore, this basis for continued slow movement to cost for each class is no longer applicable. In addition, as is evident from Staff Ex. 1.0 Attachment 1.01, taking the next of a 10-step process in this case would result in a rate *decrease* for the Railroad class and so this basis for the slower process for the Railroad class is also eliminated. Rates for each class instead should be set in this proceeding at the class cost established by the improved ECOSS ultimately adopted in this case.

C. Potentially Contested Issues

2. Non-Residential

b. Movement Toward ECOSS-Based Rates

Among parties that have addressed this issue, there was fairly broad consensus that the Commission should continue to move toward or all the way to cost-based rates for the various classes. Commercial Group witness Chriss testified that after the ECOSS has been improved in this case, rates for each class should be set at cost. CG Ex. 1.0, p.3:50-52. Staff witness Johnson (Staff Ex. 1.0: 608), Kroger witness Townsend (Kroger Ex. 1.0:153-157) and IIEC witness Stephens (IIEC Ex. 1.0:306-308) all recommended that the Commission take the next step toward eliminating the interclass rate subsidies among the non-residential classes that have existed for many years. REACT witness Fults (REACT Ex. 3.0:462) initially opposed any movement toward cost, but he admitted at the hearing that if the Commission implements additional improvements to the ECOSS, REACT would not oppose setting rates at 100 percent of cost as established by that improved ECOSS. Tr. 367:14-19 (Fults). So in the end, only CTA/Metra opposes movement of non-residential class rates to class cost, and does so only with respect to Railroad rates.

i. Non-residential class rates should fully reflect class cost as per the improved ECOSS the Commission adopts in this proceeding.

CG Position - Regardless of the ECOSS adopted by the Commission in this proceeding, the costs shown by such ECOSS should be reflected fully in class rates.

Regardless of the ECOSS adopted by the Commission in this proceeding, the costs shown by such ECOSS should be reflected fully in rates. As cited above in Section IV.A, the basis for moving more slowly toward eliminating interclass nonresidential rate subsidies was a concern that the ECOSS in 2007 over-allocated some primary costs to the Extra Large Load, High Voltage and Railroad classes. *See* 2007 Rate Order, p.213. Assuming that the Commission adopts IIEC Ex. 2.1, this over-allocation will have been substantially addressed in an improved ECOSS. So also, the improved ECOSS adopted in this case would reflect the Commission's decision concerning the appropriate allocation of 4kV and below facilities to the Railroad class. Accordingly, there no longer would remain any reasonable justification for not moving class rates to cost. In addition, the 2007 Rate Order did not contemplate the legislative move to supplant for a time the traditional ratemaking process with the formula rate process. The statute provides for a rate design investigation proceeding to occur every three years but it appears that on this case's current procedural schedule any "next step" authorized in this current proceeding would not be implemented until January 2015 (ComEd Ex. 1.0:80-83) . That would mean that the subsequent "next step" would not occur until at least 2018, about a decade after the Commission's 2007 Rate Case Order. CG Ex. 1.0, 5:115-120.

As ComEd witness Brinkman succinctly put it: "If one customer class does not pay its fair share of costs, another customer class pays more than its fair share of costs." ComEd Ex. 5.0:138-140. The Medium, Large and Very Large load classes have been paying more than their cost of service for many years (*see, e.g.*, and it is only fair that this subsidy burden should be removed, particularly as the original basis for this subsidy burden no longer applies and any final step would not occur for years.

ii. In that alternative, if the Commission decides to implement a "next step" towards cost of service, the Commission should implement the Commercial Group's reasonable "next step" approach of moving non-residential class rates halfway to cost and Railroad class rates one-third of the way to cost.

CG Position - In the alternative if the Commission decides to continue its "next step" approach, the Commission should move the non-residential classes halfway to cost, with the exception of the Railroad class, which would be moved one-third of the way to cost

Having improved the ECOSS in this proceeding, the only potential bases for continuing an interclass subsidy is out of concern for rate shock or, as alleged by CTA/Metra, for public interest concerns. There appears to be little basis for an adjustment for rate shock in this proceeding, but if the Commission desires to make such an adjustment, the Commercial Group's recommended approach would not result in rate shock.

First, with respect to the Extra Large Load and High Voltage Over 10 MW classes, a substantial portion of the overall rate increase REACT alleges these classes have faced from 2007 to present is due to the Commission's decision to allocate the IEDT on a per-kwh basis, which necessarily negatively impacts high load factor customers in these classes. However, as Mr. Fults admitted, higher load factor customers in the Medium, Large and Very Large load classes are also disproportionately affected by an IEDT kwh charge. Tr. 365:6-10. Therefore, it is unfair for high load factor customers in the Medium, Large and Very Large load classes to continue to subsidize customers in the Extra Large Load and High Voltage classes, particularly where correcting the over-allocation of Shared Distribution Lines costs to the latter classes necessarily should result in a reduction in cost to the Medium, Large and Very Large load classes. So also, REACT witness Fults agreed that even if the Commission continues to allocate IEDT cost on a per kwh basis, if the Commission corrects the ECOSS for any over-allocation of primary system costs to the Extra Large Load and High Voltage classes, REACT would "agree to pay 100 percent of the cost as shown as shown by that [improved] ECOSS." Tr. 367:14-19.

Second, based on REACT's own calculations (REACT Ex. 1.0, pp. 22-23), the increases from 2010 price levels that the ELL and HV Over 10MW classes might face - even under the RDI next step ECOSS (that is not improved in this proceeding) - do not constitute rate shock.[1] As Mr. Fults indicated at the hearing, such an increase for the High Voltage Over 10 MW would only be in the range of 4.3 percent, something Mr. Fults admitted is not a massive increase. Tr. 365:11 – 367:3 (Fults). Of course, to the extent that the Commission adopts the IIEC Ex. 2.1 methodology (and/or any other recommendations of REACT), this increase over 2010 levels would be even smaller or result in a class rate decrease, and any increases to the Extra Large Load class would also be reduced. Indeed, the major cause of this modest 4.3 percent increase appears to be the overall ComEd revenue increase that all customer classes have experienced from the formula rate update cases. The Commercial Group's "next step" approach would not result in rate shock to ELL or HV classes.

Third, as evident from Staff Ex. 1.0 Attachment 1.01, taking the next of a 10-step process in this case would result in a rate *decrease* for the Railroad class and so this basis for the slow 10-step process for the Railroad class is also eliminated. Assuming that the Commission ultimately adopts recommendations of the Railroad class in this proceeding, the actual rate *decrease* for the Railroad class from ComEd's 10-step approach may be substantially larger. Even under the Commercial Group's alternative recommendation of moving Railroad rates one-third of the way to cost, Railroad class rates would increase only 1.8 percent. Tr. 449:7-15 (Tenorio). A 1.8 percent increase can hardly be considered as resulting in rate shock. Plus, if the Commission adopts recommendations of CTA/Metra in this proceeding, the Railroad class might experience a rate decrease even under the Commercial Group's modest one-third approach.

iii. Any subsidy burden for alleged general societal benefits should be spread generally to all rate classes

CG Position - To the extent that the Commission determines that one class of customers should be subsidized because of general benefits that class may provide to society, the subsidy burden should also be spread generally to all rate classes.

Alone among the parties, CTA and Metra appear to argue that the Railroad class should be permanently subsidized – even if the Commission adopts every one of the ECOSS proposals of CTA/Metra. *See* CTA Ex. 1.0, pp. 6-8. But many ratepayers have a positive impact on the environment and are implementing energy efficiency measures. Should a business with a fleet of electric vehicles have to subsidize another pro-environment ratepayer? Is it fair for a retailer that implements energy efficiency measures and supplies all of its facilities with renewable power to be forced to subsidize another ratepayer for that other ratepayer's alleged positive contributions toward the environment? In any event, should the Commission nevertheless decide that CTA/Metra should be subsidized, the subsidy burden should not be borne solely by a few

[1] Compare Column 10-0467 with Column Ex. 2.07 ECOSS Next Step @ 75% in Table 2 at REACT Ex. 1.0, p.23. Because this case would be the third of four steps, REACT refers to the next step as being 75% toward cost from the levels at the start of Docket No. 07-0566.

disfavored classes but instead by all classes. Stated another way, if the subsidy is to recognize a general societal benefit provided by the subsidized class, the subsidy burden should also be general and spread to all other classes.

iv. The Commission should provide ComEd specific guidance on implementing any "next step" in a manner that would more completely accomplish the Commission's goal of taking gradual, relatively even steps toward class parity.

CG Position - The Commission should correct an irregularity in how "next step" decisions are implemented in order to achieve the Commission's goal of moving non-residential rates more steadily to cost. ComEd's reply brief proposals to do so appear to be reasonable corrections.

A separate issue appeared during the course of this proceeding concerning the mechanics of implementing a "next step" Commission decision. For at least one class, the current formula for implementing a next step actually results in that class moving further away from cost, something Mr. Tenorio found surprising. Tr. 436:1-5 (Tenorio). Rates for the other two classes that should ostensibly move halfway to cost in this third of the fourth steps, instead move less than halfway to cost. Thus, Table CST-D9 at ComEd Ex. 2.0, page 33 shows the following percentages of cost for the Extra Large Load and High Voltage classes in the "next step" approach under the RDI ECOSS:

Class	Current % of Cost	Halfway to 100% Cost	% of Cost After Next Step
ELL	71.9%	85.95%	84.2%
HV	85.3%	92.65%	90.7%

The percentage of cost for Railroad class rates under a $1/10^{th}$ next step would actually *decrease* from 85.1 percent to 82.6 percent. *Id.* Thus, the next step for the Railroad class would be a step backwards, away from cost. Unfortunately, this problem might only get worse under the current procedural schedule because 1) the two key parts of the compliance formula involve one Distribution Facilities Charge (DRC), or Transformer Charge (TRC) for the High Voltage class, that is based on an earlier ComEd revenue requirement while the other DFC (or TRC) is based on a later and higher revenue requirement, and 2) rates may not be affected by the order in this RDI case until January 2015, at which time the then-existing revenue requirement will very likely be even higher. ComEd described the problem in CG Cross-examination Exh. 1 - Tenorio In such a situation, as Mr. Tenorio indicated at the hearings he would find easier the task of complying with any "next step" decision in this case if the Commission gave a clear indication of how to make the "next step" calculation. Tr. 445:19 – 446:5 (a "[c]lear order is always better").

According to the relevant ordering paragraph at page 237 of the 2007 Rate Order, the Commission originally began its stepped process toward eliminating interclass rate subsidies by ordering that "Commonwealth Edison Company shall base its rates on the embedded cost of service study, with a 25% movement toward the embedded-cost-of-service-study based rates for the Extra Large Load, High Voltage, and Railroad delivery classes." ComEd then interpreted this order as best it could and complied with the order by adjusting only the distribution facilities charges for the various affected classes. Tr. 443:22 – 443:4 (Tenorio).

ComEd described its "next step" compliance process in Commercial Group Cross-examination Exh. 1 (Tenorio). Essentially, the following formula is used for determining the next step TRC (or DFC, for ELL) with "rev reqt" standing for "revenue requirement" and "2" representing the number of steps remaining at the start of this case for the HV class:

$$\text{Current TRC (old rev reqt)} + \frac{\text{Full Cost TRC (new rev reqt)} - \text{Current TRC (old rev reqt)}}{2}$$

With ComEd's revenue requirement steadily increasing under the formula rate process, the formula nevertheless should work mathematically except for the fact that the increase in revenue requirement does not uniformly increase all cost elements. This produces the unexpected results seen in this case.

As Mr. Tenorio indicated, however, "there could be a different formula" for making the next step adjustments but the Commission would need to make clear what it wants ComEd to do. Tr. 444:12 – 446:5 (Tenorio). In its reply brief (p.24), ComEd stated:

> A way in which to adopt the CG recommendation to move the ELL and HV Delivery Classes halfway to cost would be for the Commission to adopt the 85.95% and 92.65% revenue responsibilities for the ELL and HV Delivery Classes that are listed on page 14 of the CG Initial Brief. Correspondingly, a way in which to adopt the CG recommendation to move the RR Delivery Class one third of the way to cost would be for the Commission to adopt a 90.07% revenue responsibility for the RR Delivery Class based upon the current 85.1% revenue responsibility for that class. (Citation omitted.) The Commission could then instruct ComEd to determine applicable delivery service charges based upon those revenue responsibilities.

The Commercial Group recommends that the Commission order ComEd to implement any "next step" process such that Percent of Cost (as per ComEd Ex. 2.0, p.33 Table CST-9) of the ELL and HV classes after the next step is implemented are indeed halfway to cost on a revenue responsibility basis and the Percent of Cost of the RR class moves one-third of the way to cost on a revenue responsibility basis.

5. Other Issues – irregularity in "next step" formula, *see* Section IV.C.2.b.(iv)

D. Overall Recommended Rate Design

The Commercial Group makes the following rate design recommendations:

1. Regardless of the ECOSS adopted by the Commission in this proceeding, the class costs shown by such ECOSS should be reflected fully in class rates.

2. In the alternative if the Commission decides to continue its "next step" approach, the Commission should move the non-residential classes halfway to class cost, with the exception of the Railroad class, which would be moved one-third of the way to cost for its class. Then in the subsequent rate design proceeding, all customer classes would move the rest of the way to class cost but for the revenues required to move the Railroad class to cost of service over the next two cases.

3. To the extent that the Commission determines that one class of customers should be subsidized because of general benefits that class may provide to society, the subsidy burden should also be spread generally to all rate classes.

4. The Commission should correct an irregularity in how "next step" decisions are implemented in order to achieve the Commission's goal of moving non-residential rates more steadily to cost.

VI. OTHER

A. Distribution System Losses

1. Distribution System Loss Study

2. Secondary and Service Loss Study

CG Position - The Commission should reach no conclusions in this proceeding concerning the SEC/SERVICES study until that study has been extended to all classes.

It is uncontested that the Commission should reach no conclusions in this proceeding concerning the SEC/SERVICES study until that survey has been extended to all classes served by secondary and service facilities, as both Staff and ComEd propose. The Commercial Group concurs with this approach. CG Ex. 1.0, p. 8:176-179.

In the 2010 rate case, the Commercial Group questioned a large increase in the allocation of SEC/SERVICES losses to the Medium and Large classes that was caused by a new rough estimate of such losses, particularly where such customers do not use secondary service. CG Ex. 1.0, 7:160-163. The Commission then ordered that "ComEd shall segregate the SEC and SERVICE elements in any future rate case." Docket No. 10-0467 final order, p.291. ComEd then began to segregate these elements and, in its updated Secondary and Service Loss Study presented in this case (ComEd Ex. 4.02), increased the sample size for the residential and small business classes from 48 to 400 and performed field review of actual conductor size, type and length for the facilities of these classes being sampled. CG Ex. 1.0, 7:165-168. Mr. Rockrohr examined ComEd Ex. 4.02 and testified that the study improves the prior methodology by identifying actual customer loads and verifying the actual distribution facilities ComEd uses to supply those customers, although he pointed out that this improvement was limited to the Single Family, Multi-Family, Multi-Family with Space Heat and the 0 to 100 kW categories. Staff Ex. 3.0: 89-105. Mr. Rockrohr noted that this new analysis resulted in sharply lower combined secondary (SEC) and services losses for these categories but "[t]o treat customers fairly, ComEd should use expanded samples and actual loads and conductor sizes/lengths … [for] each of its customer categories supplied by both secondary and service elements – not only four of the customer categories." *Id.* at 143-152. Accordingly, he recommended that a more complete study be performed of all affected classes. *Id.* at 159-166. ComEd's witness Born agreed with this approach, promising to "conduct a field survey of the remaining categories that utilize secondary and service conductors and will apply the results in subsequent studies of distribution losses." ComEd Ex. 8.0: 70-73.

The Commercial Group likewise recommends that a complete SEC/SERVICE loss study be performed for all classes that utilize secondary and service conductors and the Commission should reach no conclusions in this proceeding concerning the SEC/SERVICES study until that more complete study is performed and the results presented in a subsequent rate proceeding.

VII. CONCLUSION

WHEREFORE, for the reasons set forth above, the Commercial Group respectfully requests that the ALJs recommend and the Commission grant the relief requested herein.

Respectfully submitted,

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